

Cambridge Incentive Zoning Nexus Study



**PRESENTATION TO
CAMBRIDGE PLANNING BOARD
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Incentive Zoning Ordinance

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- Established in 1988; amended in 2015
- Applies to non-residential development over 30,000 gross square feet
 - New construction, substantial renovation, change in use
- Requires housing contributions of \$17.10 per sq. foot
- Annual CPI adjustments
- Periodic studies (every 3 years) to update contribution rate

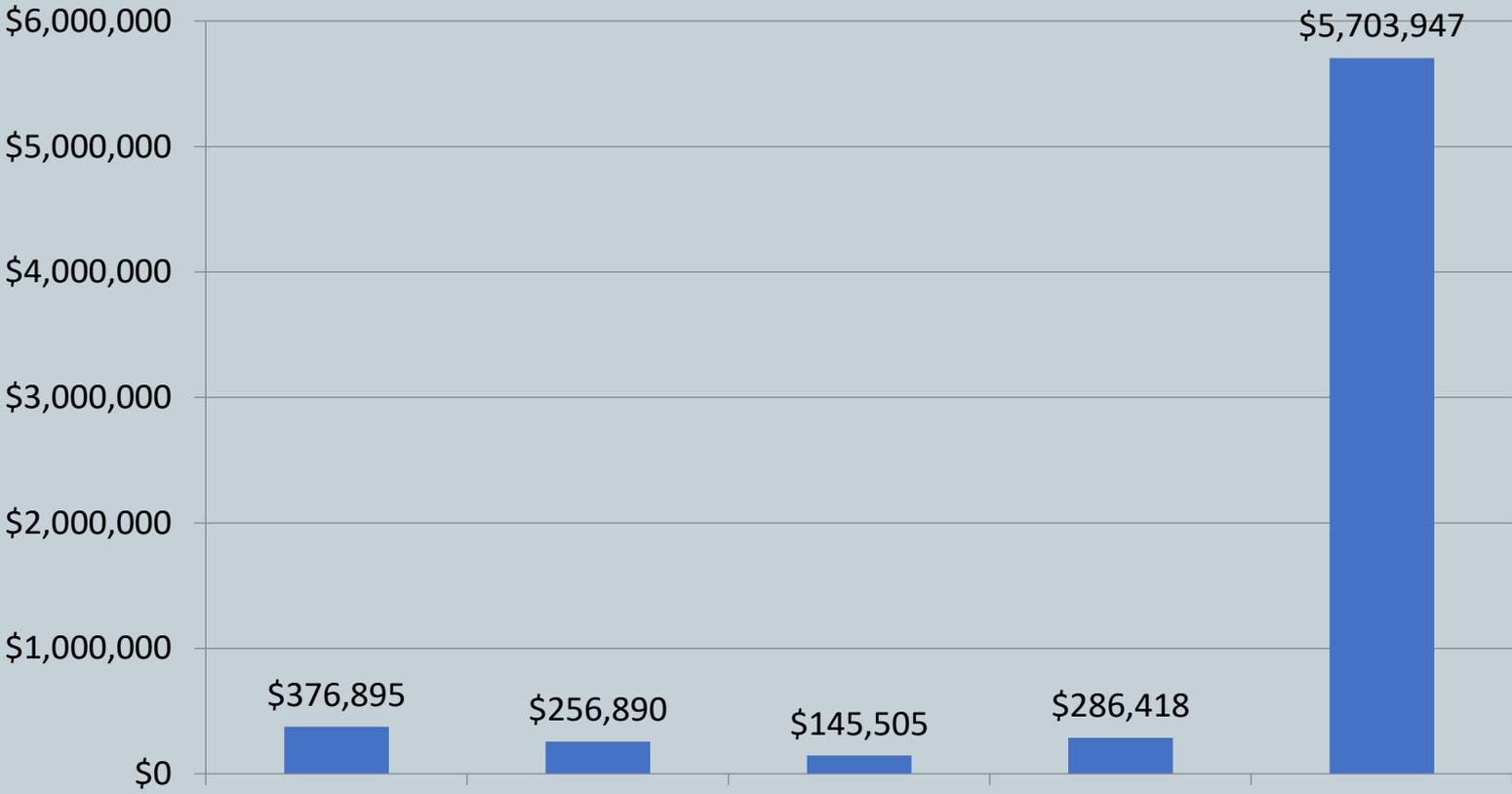
Impact of 2015 Amendments

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- Raised rate from \$4.58 to \$12.00 with scheduled \$1 increases from 2016 to 2018
- Contributions required by use, not tied to specific special permits
- Major increase in contribution revenues
 - First payment in 2019 (\$2,109,176) comparable to total payments from 2004 to 2013
 - \$28.5 million in housing contributions estimated for 2019 to 2023, averaging \$5.7 million per year

Average Annual Housing Contributions, 2000 to 2018 and Projected 2019 to 2023

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* Includes \$2.1 million paid in January 2019

to 2023*

Study Purpose and Scope

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- Analyze development and employment trends and impacts
- Review existing policies and options
- Analyze job contribution option
- Recommend new contribution rates and policy changes

Overview of Recommendations

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- Raise housing contribution from \$17.10 \$23.10 per sq. foot (before any CPI adjustments) over five years
 - \$2 increase in first year + four \$1 annual increases
 - Continue annual CPI adjustments
- Predictable, incremental change allows developers to plan for contribution increase
- Maintain single citywide rate
- Change time-period for policy review to 5 years
- Do not create jobs contribution
 - Address jobs training funding in other ways

Study Methodology: Housing

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10 Year Projected Development and Employment by Use and Industry

Worker Survey

Estimated Number of Workers Demanding Housing in Cambridge by Use and Industry

Occupational Dist.
& Earnings

Estimated Number of Workers Demanding Housing in Cambridge by Annual Earnings

MSA Data on
Households

Estimated Number of Single & Multi-Worker Households Demanding Housing in Cambridge by Low, Moderate and Middle Income Levels and Household Size

Final Estimated Housing Units by Tenure and Number of BRs to Address Demand from New Development among Low, Moderate and Middle Income Households

Estimate Development Costs and Required Subsidy for Maximum Determined Contribution Rate

Note: Summary presentation. See Nexus Study for complete analysis.

Estimate of Projected New Development and Jobs

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Type of Use	Projected Square Feet of Development	Estimated Jobs
Office and R&D Lab Space	5,000,000	12,694
Institutional Space	520,000	867
Retail, Restaurant, Services	200,000	706
Hotel	120,000	1,182
Total	5,840,000	863

- Reflects development activity over past ten years along with planned development projects

Estimated Housing Demand from Projected New Development

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Income Group	One-Person Households	Two-Person Households	Three Person Households	Four Person Households	Total
Low Income	83	49	31	37	200
Moderate Income	97	63	14	93	267
Middle Income	56	51	49	99	255
Total	236	163	94	229	722

Note: Summary presentation. See Nexus Study for complete analysis.

Housing Mix Assumptions in Calculations

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- Rental and Ownership Units
 - Low-income units are all rental units
 - Moderate income units are 30% ownership/70% rental
 - Middle income units are 50% ownership/50% rental
- Unit Size
 - One person households are 100% one BR units
 - Two person households are 20% one BR /80% two BR units
 - Three person households are 80% two BR/20% three BR units
 - Four person or larger households are 100% three BR units

	1 BR Units	2 BR Units	3 BR Units	Total
Rental	191	134	146	471
Ownership	78	72	101	251
Total Units	269	206	247	722

Note: Summary presentation. See Nexus Study for complete analysis.

Rental Housing Development Costs and Subsidy

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- **\$284.1 million** estimated total development cost (TDC) for 471 rental units, based on recent comparable projects
- Rental NOI based on rent at 30% of household income less operating costs
- Total NOI of \$2,688,190 supports mortgage debt of \$40.909 million and equity investment of \$2,688,000
- **Required subsidy of \$240,534,000**
 - (TDC – supportable mortgage – supportable equity)

Ownership Development Costs and Subsidy

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- **\$157.3 million** total development cost for 251 ownership units , based on recent comparable projects
- Sales price based on 30% of household income to pay mortgage principal, interest, taxes and insurance with 5% down payment
 - Average sales price for moderate income = \$228,600
 - Average sales price for middle income = \$331,865
- Total revenue from housing sales = \$75.037 million
- **Required subsidy of \$82,258,000**

Combined Subsidy and Unadjusted Maximum Determined Contribution Rate

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	All Units	Low Income Households	Moderate Income Households	Middle Income Households
Total Development Subsidy	\$322,792,000	\$120,145,106	\$121,588,714	\$81,058,180
Projected Square Feet Subject to Housing Contribution	5,840,000	5,840,000	5,840,000	5,840,000
Subsidy Required per Square Foot	\$55.27	\$20.57	\$20.82	\$13.88

Note: Summary presentation. See Nexus Study for complete analysis.

Adjusted Maximum Determined Contribution Rate

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- Non-Cambridge sources help fund required subsidy for affordable housing
- Cambridge Affordable Housing Trust Fund supplied 43% of subsidy to recent low- and moderate-income projects
- Assume 73% of subsidy for middle income rental units and 100% of subsidy for middle-income ownership units
- Applying these CAHT shares to required subsidy reduces the maximum determined contribution to **\$33.34**
 - \$20.90 for low- and moderate-income units
 - \$12.44 for middle-income units

Job Contribution Nexus

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- New development creates employment opportunities for Cambridge residents
 - Focus on occupations for lower skilled workers
- Education and training services will be needed to address labor supply gap and prepare Cambridge residents to access to these jobs
 - Occupational training
 - English language, math skills and ESOL
- If existing services are insufficient to meet needs, contributions are warranted to fund this service gap

Demand Analysis: Occupational Training

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New Development Forecast:
5, 932 new low- and middle-skill jobs over ten years
(employment training demand)

Resident Employment Goal`	Number of Low/Middle Skills Jobs
10%	593
20%	1,186
30%	1,780
40%	2,373

Supply Side Analysis: Key Occupational Training Providers

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- Cambridge Learning Center
 - Health care (CAN, PCA, HHA)
- Just-A-Start
 - Biomed and IT Programs (Youth Build not included)
- Perscolas new IT training program
- Rindge Technical Arts Program
- Mass Hire Metro North –ITAs
 - Vouchers for range of occupations
- Bunker Hill Community College
 - Many certificate and associate programs

Existing Annual Training Slots by Provider

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Provider	Low Estimate*	High Estimate+
Cambridge Learning Center- Health occupations	30	30
Just A Start Biomed	12	19
Just A Start IT	10	17
Perscolas	4	12
Rindge Technology Arts	12	12
Metro North WIB ITAs	9	9
Bunker Hill Community College	31	31
Total	108	130
Ten Year Amount	1,080	1,300

Note: Summary presentation. See Nexus Study for complete analysis

ESOL/ABE Supply and Funding Gap

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- Little evidence of supply gap
 - Limited demand for existing ABE programs
- 520 annual ESOL slots
 - = 5,200 person capacity close to 5,923 ten-year projection of total low/mid skill jobs
- Estimated 1,421 low-skill workers in need of ESOL
 - Includes not in workforce, unemployed and employed

Occupational Training: Funding Gap and Contribution Rate

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Resident Share	Ten Year Demand	Existing Supply - Low	Existing Supply - High	Gap- Low Supply	Gap: High Supply
10%	593	1,080	1,300	None	None
20%	1,186	1,080	1,300	None	None
30%	1,780	1,080	1,300	700	None
40%	2,373	1,080	1,300	1,293	1,073

Resident Share	Low Supply Cost	High Supply Cost	\$ PSF Low Gap	\$ PSF High Gap
30%	\$4,761,522	NA	\$0.82	0
40%	\$8,795,212	\$7,298,733	\$1.51	\$1.25

Weighted Average Training Cost:\$6,802

Note: Summary presentation. See Nexus Study for complete analysis

Review of Existing Ordinance and Policy Options

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Policy options considered:

- Change project size threshold
 - ✦ Few projects under 30,000 SF; little impact on revenue
- Vary contribution rate by use
 - ✦ Impacts do vary by use: restaurants have largest impact on housing and jobs; Institutions and R&D space the least
 - ✦ Administrative complexity and changes in use over time are problems
- Vary contribution rate by geography
 - ✦ Rents and development economics differ between east and west Cambridge
 - ✦ Risk of unintended consequences from differing fees and incentives for investment across Cambridge

Linkage Contributions in Other Cities

City	Housing	Jobs	Total
Boston	\$9.03	\$1.78	\$10.81
Somerville	\$10.00	\$2.46	\$12.46
Denver	\$0.41 to \$1.76 by use	NA	\$0.41 to \$1.76
Seattle	\$5 to \$32.70 by zone	NA	\$5 to \$32.70 by zone
San Francisco	\$19.04 to \$28.57 by use	NA	\$19.04 to \$28.57 by use

Note: Summary presentation. See Nexus Study for complete analysis.

Competitive Impact of Maximum Determined Contributions

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- Maximum determined rate would double the current rate
 - 3X Boston and 2.5 X Somerville's level
- Contribution increase will add to project development costs
- Developers may seek to reduce acquisition costs, lower investment returns or raise rents in response to increased rate
 - Commercial rental impact: adds \$2.22 psf over ten year lease, + 2.5% to 4.3%
 - Impact on equity returns: ~ 100 basis point decline
- East Cambridge rents are highest in region
 - Strong demand for space may allow developers to pass on added costs
- West Cambridge office rents: 45-50% above competing suburbs
- Combined factors favor contribution rate below maximum

Recommended Rate and Polices

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